The State of Connecticut Health and Educational Facilities Authority met in session at the Authority’s office at 10 Columbus Boulevard, Hartford, Connecticut at 2:00 p.m. on Tuesday, April 22, 2003.

The meeting was called to order by Barbara Rubin Chair, of the Board of Directors of the Authority, and upon roll call, those present and absent were as follows:

PRESENT: William J. Cibes, Jr.
Michael J. Cicchetti (Rep. Marc S. Ryan)
Patrick A. Colangelo, Vice Chair
Howard G. Rifkin (Rep. Denise L. Nappier)
Barbara Rubin, Chair

ABSENT: Lorraine M. Aronson
John M. Biancamano
Benson R. Cohn
Laurence R. Smith, Jr.
Dori Taylor Sullivan

ALSO PRESENT: Richard D. Gray, Executive Director,
Jeffrey A. Asher, Managing Director/CFO,
David A. Williams, Managing Director,
Dan Boisvert, Financial Analyst,
Dawn Fuller, Administrative Assistant,
Eileen MacDonald, Manager, Administrative Services,
JoAnne Mackewicz, Manager, Client Financial Services,
Michael Morris, Manager, New Business,
Erin Pellicci, Financial Analyst-Compliance/Arbitrage,
Cynthia D. Peoples H., Manager, Systems and Financial Analysis, and
Felicia Tam, Financial Analyst-Compliance/Arbitrage, of
Connecticut Health and Educational Facilities Authority
The Notice of Regular Meeting was read and ordered spread upon the Minutes of this Meeting and filed for the record.
BOARD OF DIRECTORS’ MEETING

April 22, 2003

The Meeting was called to order by Barbara Rubin, Chair, at 2:00 p.m.

MINUTES

Upon motion duly moved and seconded, Minutes of the Regular Meeting of the Board of Directors’ of March 25, 2003 were unanimously approved with the correction on page six that Yale-New Haven Hospital does, in fact perform kidney transplants.

Upon roll call, the “Ayes,” “Nays,” and “Abstentions” were as follows:

A Y E S  
William J. Cibes, Jr.  
Michael J. Cicchetti  
Patrick A. Colangelo  
Howard G. Rifkin  
Barbara Rubin

N A Y S  
none

A B S T E N T I O N S  
none

NURSING HOME AND SENIOR LIVING REVIEW

Mr. Williams presented the twelve-month nursing home report, for which the written report was given to the Board Members today. The detailed report focuses on CHEFA’s 21 nursing home clients, three assisted living facilities, four continuing care communities and one behavioral health facility. The report does not include the three SCRF nursing home borrowers which defeased $24.16 million of their issues in January and February 2003. The 28 remaining facilities have a current total of $318 million in outstanding Authority debt. CHEFA’s nursing home debt financings total $176 million, of which $90 million represents SCRF enhanced debt. Mr. Williams reminded Members that the $90 million is a significant reduction, from the original $260.4 million in outstanding SCRF debt, due to defeasance and principal repayments, including seven SCRF borrowers who defeased all their issues in the last two years.
Operating income of CHEFA’s remaining nursing home borrowers has been declining over the last four years to a loss of $3.44 million in FY 2002. In addition there was an 80% drop in non-operating income in FY 2002, resulting in a dramatic reduction in aggregate Debt Service Coverage Ratio (“DSCR”) to 1.09 times. Currently, 20% of CHEFA’s nursing home borrowers have strong DSCRs above 2.0 times, 40% have moderate DSCRs in the 1.30 to 1.55 times range, and the remaining 40% have weak DSCRs of 1.03 times or worse; in some cases the DSCRs are in the negative. Total receivables for the nursing homes are $31.23 million and total cash is $20.5 million, providing some stability, but the aggregate current debt ratio declined from 1.29 times to 1.18 times in FY 2002 due to an increase in current liabilities.

Payor Mix reflects a decline of private pay from 24.59% in FY 2001 to 22.61% in FY 2002. There appears to be a heavier reliance on Medicaid, which increased from 65.33% in FY 2001 to 66.35% in FY 2002. However, Medicaid does not fully reimburse nursing home costs. Key credit trends for the CHEFA nursing home portfolio includes reductions in par amounts due to SCRF Defeasance, insurance costs, which have increased more than 100% in some cases, cost pressures such as nursing shortages and wages, pharmacy costs, and Medicaid which has increased reimbursements by only 1% in a period when expenses have increased more rapidly.

Mr. Williams reported that total debt outstanding for assisted living facilities is approximately $29 million as of September 2002. The assisted living facilities, Middlesex Healthcare, The Orchards at Southington affiliated with Bradley Healthcare, and SummerWood affiliated with Hebrew Home and Hospital, and relatively new to the industry, constructed since the late 1990s. Mr. Williams reported Middlesex and Orchards had both occupancy above 90% and DSCR above 1.25 times in FY 2002. However, SummerWood required a waiver regarding the 1.25 times covenant for September 30, 2002.

The four CHEFA Continuing Care Retirement Communities (CCRCs) include Catholic Health East’s McAuley Center, Covenant Village of Cromwell, Edgehill Retirement Community and Masonicare. Catholic Health East’s McAuley Center has had healthy financial results the last three years, after many years of losses. Covenant, part of the nation-wide Covenant Retirement Communities, is stable financially. Edgehill, with strong financials, has been managed by Marriot. Effective March 28, the Marriot management contract was acquired by Sunrise, which has an excellent reputation for running assisted living facilities, but very limited experience managing CCRCs. Masonicare reported a $20 million loss in FY 2002. Masonicare is supported by $150 million of investments.

In response to a question from Dr. Cibes, Mr. Gray responded that the nursing home industry is weaker than the hospital industry which was reported on at last month’s Board Meeting. Ms. Rubin asked about the low rate of Medicaid reimbursements, to which Mr. Gray responded that several factors contribute to the circumstances of the healthcare industry, including Medicaid rates, nursing shortages, and occupancy rates. Although the occupancy rates for the CHEFA-financed nursing homes is approximately 97%, the industry rates are much lower. Mr. Gray added that there was an industry trend several years ago to increase the number of small nursing homes in each community to enable
family to be closer to residents, and as a result the market may be oversaturated. Mr. Rifkin asserted that Medicaid rates will most likely worsen and present further challenges to the healthcare industry.

Mr. Gray advised the Members that the state of the healthcare industry is of such concern that a working group has been formed which includes OHCA, the Department of Health and CHEFA. In response to a question from Ms. Rubin, Mr. Williams responded that of the eight nursing homes with low DSCRs, only one nursing home had unenhanced financing, Brittany Farms as part of the Hospital for Special Care Obligated Group.

The Chair thanked Staff for the presentation and requested periodic updates on the status of Connecticut hospitals and nursing homes.

Laurie Hall entered the meeting at this time.

**CURRENT AND PENDING BOND ISSUES**

Mr. Morris reviewed the Financing Forecast Report, noting one new addition, Wesleyan University, which will be presented as a preliminary memo in May and for Board approval at the June meeting. The Yale-New Haven Hospital Series I, and Connecticut State University Series E, Issues will be presented today for Board approval. The Summary of Financings will reflect the Brunswick School Issue next month, which sold on April 16, and for which a sales report will be provided by Lamont Financial today. The Brunswick School Issue is expected to close on April 30, and the Boys and Girls Club of Greenwich Series A, Issue is expected to close on May 7, 2003.

In response to a question from Ms. Rubin, Mr. Morris responded that the Authority’s portfolio reflects five issues financed for $404 million for Fiscal Year 2003. In response to an additional question from Ms. Rubin, Mr. Gray advised the total amount on issues outstanding is approximately $4.4 billion, which was later confirmed by Mr. Morris. The reports were accepted as information.

**INTEREST RATE REPORT**

Mr. Williams provided an update on interest rates advising that rates have remained fairly stable. The 30-year Treasury rates, 4.96% the day of the March Board Meeting, have declined slightly to 4.93% on April 21, and 4.89% today. Mr. Williams believes the market appears to be focusing on large Treasury financings in the next 30 days, and away from the War. The report was accepted as information.
SALES REPORTS

Brunswick School Issue, Series B

Ms. Ervin reviewed information for the Brunswick School Issue which sold on April 16, 2003. The bonds, sold as a 30-year fixed rate issue, were insured by MBIA insurance and were rated “AAA/Aaa” by both Standard & Poor’s and Moody’s respectively. The TIC on the bonds was a 4.812%. A portion of the proceeds from the sale of the bonds will be used with the intent of creating a level debt service for the School. The bonds were priced the same week as a State of Connecticut issue and priced comparatively well, within one basis point. The report was accepted as information.

CONSENT AND BOND ISSUE AUTHORIZATION RESOLUTIONS

Yale-New Haven Hospital Issue, Series I

Mr. Morris presented the memo for the Yale-New Haven Hospital (“the Hospital”) $12.0 million issue, which will be structured as a fixed rate issue. The bond proceeds will be used to refinance the Series G Issue, with no new money being issued, and is expected to result in a $1.2 million or 9.5% in savings. This Issue is being enhanced by AMBAC at a premium of 90 basis points with no additional covenants or mortgages being required.

At the March Board Meeting, questions were raised about the Expenses per Case Mix Adjusted Equivalent Discharge (“CMAED”) rates, union activity and litigation. In response to the question about CMAED, the Hospital was unable to identify the exact cause of the high cost. The Hospital advised that outpatient gross revenue as a proportion of overall gross revenue is less than other hospitals in the state which impacts the calculation for CMAED; the Hospital rates seventh in Connecticut for outpatient gross revenue in FY 2002. The CMAED for the Hospital increased 2.1% from FY 2001 to FY 2002. Comparatively, the CMAED for the State average during the same time period increased by 3.6%. Since 1999, the Hospital’s CMAED increased only 6.2%, while the state average increased 11.4%.

Union activity at the Hospital has resulted in work stoppages however, patient services were not affected. The dietary department of the Hospital has the only active union, Local Union Number 1199, on campus. The Service Workers International Union unsuccessfully attempted to organize service employees and clerical staff. Based on a bi-annual employee opinion survey, employee relations with the Hospital are favorable.

The Hospital was served with a subpoena for its patient and billing information in connection with the lawsuit brought by the Attorney General in connection with the use of so called “free bed” funds. The Hospital questions the validity of the subpoena and is in the process of formulating a response to the subpoena. One possible response to the subpoena is to download the entire patient billing system to the Attorney General’s office.
After reviewing five months ending February 28, 2003 results, Mr. Morris concluded by saying that Yale-New Haven Hospital is one of the strongest hospitals in the State and it’s part of a comprehensive healthcare delivery network. In response to a question from Ms. Rubin, Mr. Morris stated that the Hospital agreed that the annual giving of $2 million is low for a hospital of its size. The Hospital has recently hired a Vice President of Development to run the major capital campaign as well as enhance the overall development program.

There being no further discussion, the Chair introduced Resolution 2003-03 (Yale-New Haven Hospital Issue, Series I, Authorizing), which Resolution was read and considered. Dr. Cibes moved adoption of Resolution No. 2003-03. The motion was seconded by Mr. Colangelo.

Upon roll call, the “Ayes,” “Nays,” and “Abstentions” were as follows:

<table>
<thead>
<tr>
<th>AYES</th>
<th>NAYS</th>
<th>ABSTENTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>William J. Cibes, Jr.</td>
<td>none</td>
<td>none</td>
</tr>
<tr>
<td>Michael J. Cicchetti</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patrick A. Colangelo, Vice Chair</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Howard G. Rikfin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barbara Rubin, Chair</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Chair then declared Resolution 2003-03 adopted (see Appendix A, Resolution 2003-03).

**Connecticut State University, Series E**

Mr. Asher presented the $165 million Connecticut State University, (“CSU”) Series E Issue. Dr. Cibes, Chancellor of CSU, immediately recused himself from any discussion or vote on this matter. Dr. Cibes, in fact, questioned whether he should leave the Board Room during the discussion. Attorneys See and Casey stated the recusal was sufficient and Dr. Cibes could remain.

Mr. Asher continued his presentation noting that Central Connecticut State University (“CCSU”) was no longer included in the proposed bond issue because they are reevaluating their project. The original amount of the issue changed from $200 million to $165 million due to the withdrawal by CCSU. The bonds will be sold on a competitive basis, like the previous issues, and bids for the purchase of the bonds will be received electronically. The bond issue will be pre-qualified for bond insurance and will be insured at the option of the purchaser.
CSU has provided the required self sufficiency calculations and financial projections that demonstrate sufficient revenues to cover annual debt service requirement including five financial projections which include liquidity, debt service and adequate cash flow. The financial projections demonstrate the ability to cover debt service commitments that exceed the Authority’s minimum requirement of 1.25 times. Debt service coverage projections have been provided for all four campuses through FY 2011. Additionally, a pledge of all residence fees had been provided for security for the bond issue. In response to a question from Mr. Colangelo, Mr. Asher responded that the Authority does not require the CSU Foundation to be co-obligor for this issue because of the SCRF guarantee by the State.

The Chair then introduced Resolution 2003-04 (Connecticut State University Issue, Series E, Authorizing), which Resolution was read and considered. Mr. Rifkin moved adoption of Resolution No. 2003-04, subject to agreement by absentee Board Members. The motion was seconded by Mr. Cicchetti.

Upon roll call, the “Ayes,” “Nays,” and “Abstentions” were as follows:

<table>
<thead>
<tr>
<th>AYES</th>
<th>NAYS</th>
<th>ABSTENTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael J. Cicchetti</td>
<td></td>
<td>William J. Cibes, Jr.</td>
</tr>
<tr>
<td>Patrick A. Colangelo, Vice Chair</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Howard G. Rifkin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barbara Rubin, Chair</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

With the recusal of Dr. Cibes, several of the attorneys present questioned the presence of a quorum for the vote. Although it appears that CHEFA By-Laws permit the vote, it was decided that to be in full compliance with the CHEFA statute, a resolution would be circulated to the absent Board Members. The following Board Members approved resolution 2003-04 by signed assent in accordance with statutory procedures:

Lorraine M. Aronson
John M. Biancamano
Michael J. Cicchetti
William J. Cibes, Jr.
Patrick A. Colangelo, Vice Chair
Howard G. Rifkin
Barbara Rubin, Chair
Dori Taylor Sullivan

1 Mr. Cibes recused himself from the discussion and abstained from the vote as he is the Chancellor for the Connecticut State University System.
CHEFA FINANCIAL OPERATIONS

March 2003 Financial Statements

Mr. Asher referred Members to the March financial statements which show a bottom line excess of revenues over expenses year-to-date of $1.7 million, and $1.9 million excess before program-related expenses. The statements show that the Authority is $90,000 ahead of budget for the excess and the Authority will have an excess of revenue over expenses of $2 million by the end of the fiscal year.

OTHER REPORTS

Science Center of Connecticut

Mr. Gray provided an update on the status of repayment of $425,000 in loans to the Science Center. Although the loans matured on March 31, environmental issues involved in the sale of property to Kingswood-Oxford School continue to cause delays. The sale is expected to close by the end of the month, at which time the loans will be paid in full. Mr. Gray is confident that sufficient funds are available for full repayment of the loans. In response to a question from Ms. Rubin, Mr. Gray confirmed that the loans are interest bearing.

Legislative File 422, An Act Concerning Low-Cost Prescription Drugs

Mr. Gray reported that he was recently informed that the Office of Fiscal Management has introduced legislation that may financially impact the Authority. The legislation appears to require CHEFA to offer a revolving loan program to four federally qualified health centers (“FQHC”) to establish pharmacies or build partnerships with community pharmacies. The loan proceeds would be used to purchase or lease computers, automated medical dispensing equipment and other costs associated with opening a pharmacy. If the proposed legislation is adopted, the loan program would utilize up to $500,000 of the Authority reserves. In response to a question from Ms. Rubin, Mr. Gray advised that the legislature can mandate a change in the charter of CHEFA. Mr. Gray used the example of the energy purchasing program for which the legislature is being asked to change the charter of CHEFA to allow the Authority to offer low-cost energy related services to CHEFA clients through group purchasing.

Another component of the loan program would involve the Department of Social Services (“DSS”). DSS would be required to assist the FQHCs in the application process, monitor the program and provide an annual report to the Public Health, Human Services, and Appropriations committees as to any savings to the State the program would have. DSS may also be financially impacted through administrative costs if the proposed legislation is adopted. Several Members had questions about criteria for the pharmacies and repayment language to which Mr. Casey responded that the current language of the legislation did not provide answers to the questions and a revision was in progress. Mr. Gray advised that as soon as more information becomes available, Board Members will be notified.
Ethics Commission Reminder

Mr. Gray reminded the Members that the Annual Statements of Financial Interests are due May 1, 2003.

Grants Update

Mr. Gray provided a verbal report on the CHEFA Grants Program. To date, 21 applications have been received, totaling $1.6 million in requests. A quick appraisal of the applications appears to reveal that the PIC Index criteria may have been disregarded in the selection of the applicants by the Community Foundations. The Grant Committee will need to meet in order to fund the awards in June.

Privatized Student Housing

Mr. Asher began his report by referring members to the information provided in their folders from Dr. Cibes on Privatized Student Housing. Staff is recommending that the Board approve a policy change to provide for the issuance of tax-exempt debt to finance privatized student housing projects on behalf of 501(c)(3) single purpose, single entity limited liability corporations for the benefit of Connecticut higher education institutions. This recommendation is for an alternate means of financing housing needs for colleges and universities. Dr. Cibes has submitted a written response to the Board Memo relative to this matter.

We have been asked to consider this financing alternative in the past and have declined consideration because the financing alternative was new and did not have a good track record. We were concerned because credit enhancement was largely unavailable and expensive, and about how the IRS would react to this financing vehicle. Initially, the IRS had concerns and, in fact, conducted an audit of Collegiate Housing Foundation (CHF) the tax-exempt, non-profit entity that would be the borrower on some of the projects that we would like to finance. The IRS was concerned about certain operational issues which, if not corrected, would have caused the IRS to revoke CHF’s 501(c)(3) status. Until this issue was resolved, CHF was prevented from issuing tax-exempt debt.

The concerns we have had been adequately addressed and we are now looking for Board approval of this financing vehicle.

• Credit enhancement is now available at a reasonable price;
• The rating agencies have developed a credit rating methodology; and
• CHF has been audited by the IRS and received a favorable outcome, based on important structure changes by CHF.

In order to respond to concerns raised by the IRS during their audit, CHF has made the necessary changes to its Articles of Incorporation and Bylaws to correct organizational
defects and received a ruling from the IRS that they have satisfied the operational requirements for exemption under 501(c)(3) and that the exemption will continue to be recognized retroactive to the date of CHF’s incorporation. The Bylaws were amended to require that a college or university become a member of Collegiate Housing Foundation and stay a member as long as CHF owns and operates a privatized student housing facility for the college or university.

A lengthy discussion among the Members ensued, of which additional issues to be researched were identified. The issues included: 1) the reliability of Capstone Development as it is currently being reviewed by the UConn project for prevailing wage law violations, 2) determining the responsible party for maintaining the facility, 3) further investigation as to whether this is a legal relationship or affiliation between Capstone and Collegiate Housing Foundation, and 4) analysis of the total project cost. Additionally, Ms. Rubin specifically asked for the mechanics of the proposed program be outlined. Mr. Rifkin added that more information on the structure between Capstone and CHF should be provided before a more meaningful discussion could proceed and how the structure would affect the holding company. Mr. Asher will provide answers to all concerns raised at the May Board Meeting.

DATE OF NEXT MEETING

The Chair reminded everyone present of the next meeting date, scheduled for Tuesday, May 27, 2002.

There being no further business, the Board unanimously agreed to adjourn at 3:44 p.m.

Respectfully submitted,

Richard D. Gray

Executive Director